Coller Capital

Global Private Equity Barometer

SUMMER 2016

A UNIQUE PERSPECTIVE ON THE ISSUES AND OPPORTUNITIES
FACING INVESTORS IN PRIVATE EQUITY WORLDWIDE

Coller Capital's Global Private Equity Barometer

Since 2004, Coller Capital's Global Private Equity Barometer has provided a unique snapshot of worldwide trends in private equity – a twice-yearly overview of the plans and opinions of institutional investors in private equity (Limited Partners, or LPs, as they are known) based in North America, Europe and Asia-Pacific (including the Middle East).

This 24th edition of the Global Private Equity Barometer captures the views of 110 private equity investors from around the world. The Barometer's findings are globally representative of the LP population by:

- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

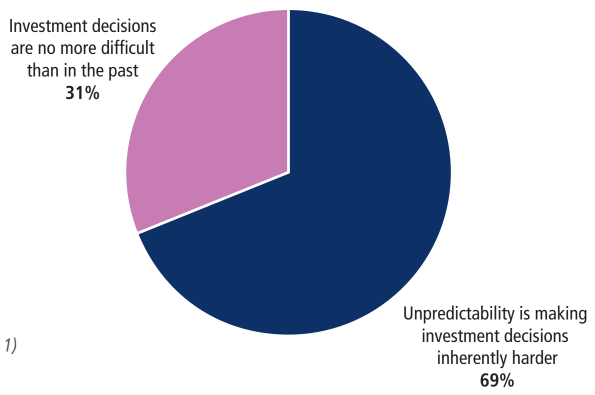
Contents

Topics in this edition of the Barometer include investors' views and plans regarding:

Investment decision-making is "becoming inherently harder"

Private equity investors believe that the unpredictability of today's global economy is making investment decisions inherently more difficult. Fully three quarters of Asia-Pacific LPs think this is true.

Investment decision-making in today's economy – LP views

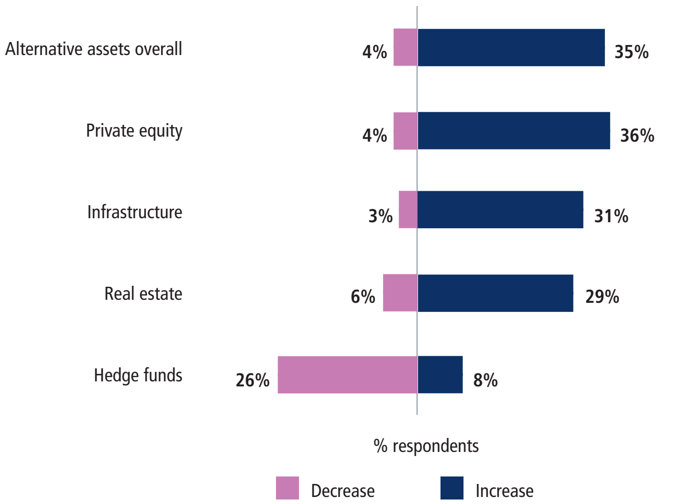


(Figure 1)

A quarter of LPs are planning to reduce their exposure to hedge funds

A quarter of LPs plan to reduce their target allocation to hedge funds in the coming year. This contrasts strongly with other kinds of alternative assets: around a third of LPs are planning increased allocations to private equity, infrastructure and real estate.

Changes in LPs' planned target allocations to alternative assets over the next 12 months

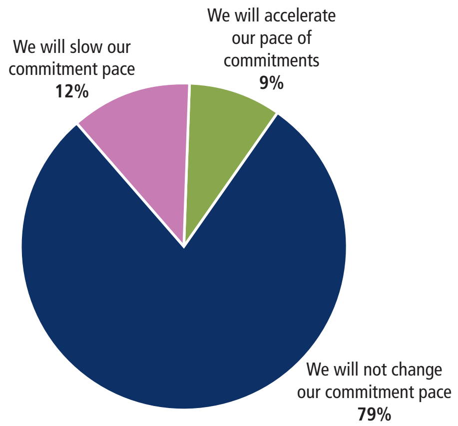


(Figure 2)

Market volatility will not affect LPs' PE commitment plans

Despite the recent volatility of financial markets, most LPs will not change the pace of their new private equity commitments over the next couple of years. The fifth of private equity investors who do expect to change their pace of commitments are fairly equally split between those planning to increase and those planning to slow their pace of commitments.

Likely impact of market volatility on LPs' new PE commitments in the next 1-2 years



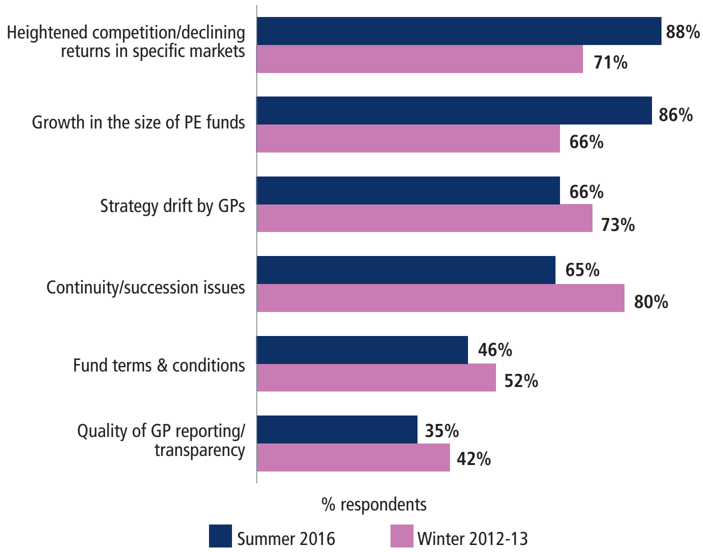
(Figure 3)

LPs' biggest concerns are market competition and the ever-larger size of PE funds

Nearly all LPs are concerned about the competition for assets and the growth in the size of GPs' funds in today's private equity market.

Concerns about GP strategy drift, manager continuity and succession, PE fund terms and GP reporting have all receded somewhat since the Barometer of Winter 2012-13.

PE-specific factors concerning LPs in the current environment

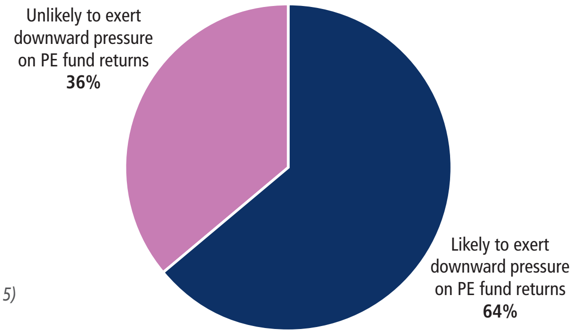


(Figure 4)

Growth in shadow capital will reduce PE fund returns

Two thirds of LPs believe that the growth in shadow capital (LPs' non-fund-based private equity investments such as directs, co-investments and separate accounts) will have a negative impact on the returns of commingled private equity funds.

Likely impact of the growth in shadow capital on PE fund returns – LP views

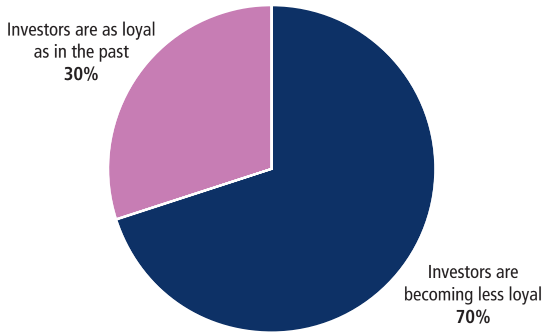


(Figure 5)

PE investors are becoming less loyal to their GPs

70% of private equity investors say that Limited Partners are becoming less loyal to individual managers.

Investor views on LP loyalty to individual GPs



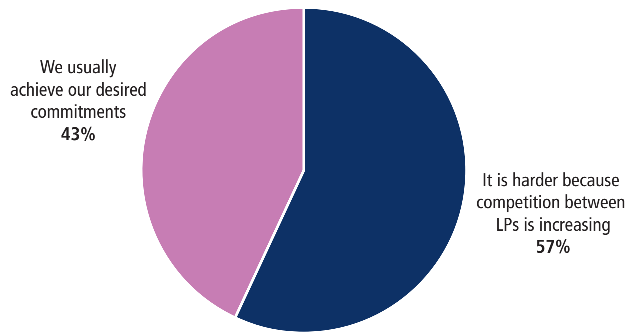
(Figure 6)

Mid-sized LPs are struggling to commit at scale to their target GPs

Over half of LPs say that increased competition between investors is making it harder to invest as much as they would like with their preferred GPs.

This problem is particularly acute for mid-sized investors – those with total assets of $5-10 billion – 88% of whom are finding this a problem.

LPs' ability to invest at scale with their preferred GPs

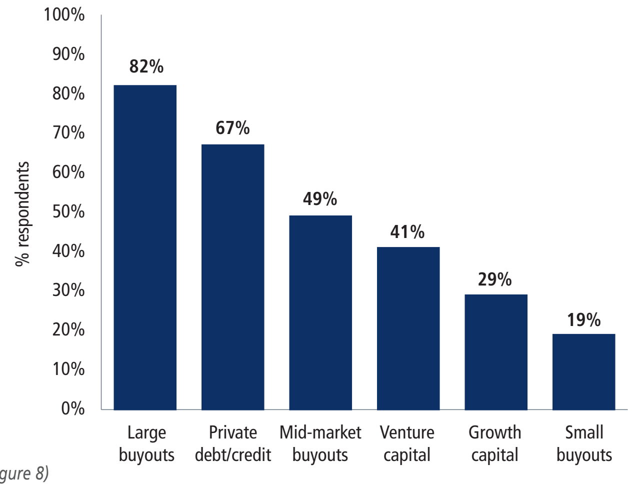


(Figure 7)

Differentiation is hardest for GPs of large buyout and private debt funds

The managers of large buyout funds and private debt funds struggle most in differentiating their offer, according to LPs. The task is easier for the GPs of smaller private equity funds, which are out of necessity more specialist.

Areas of PE where it is hard for GPs to differentiate themselves from their peers – LP views



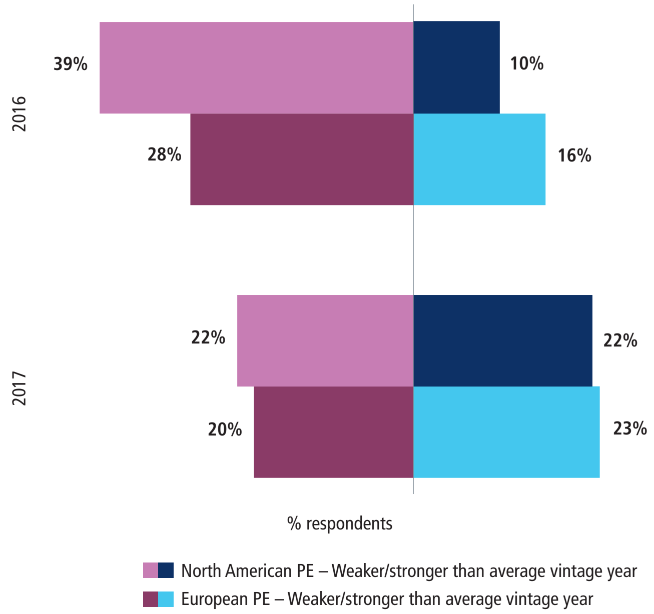
(Figure 8)

LPs more optimistic about 2017 than 2016 for main PE markets

LPs as a group expect private equity conditions to improve gradually over the next couple of years – with 2017 likely to be a stronger vintage year than 2016.

LP expectations for private equity in North America in 2016 are noticeably weaker than for Europe, with two fifths of investors forecasting a weaker-than-average vintage year there.

LP views on the 2016 and 2017 vintage years for North American and European PE



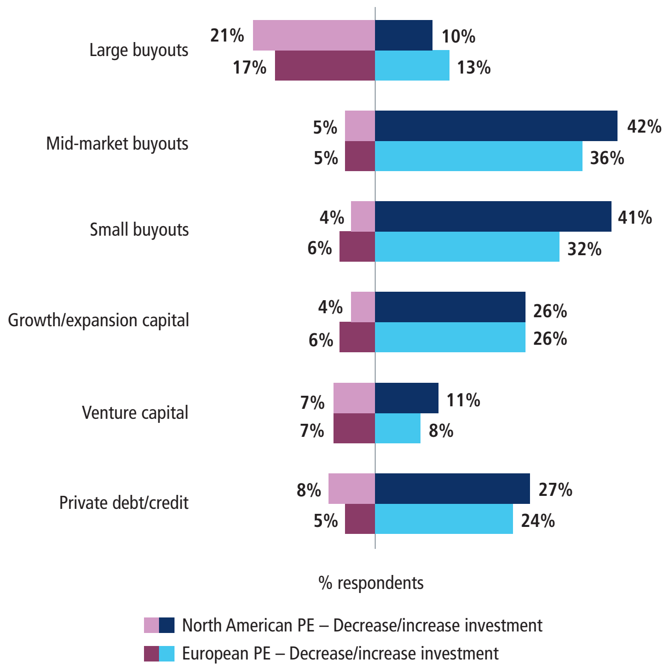
(Figure 9)

LP focus stays firmly on the mid-market in North America and Europe

Investors are pursuing similar strategies for North American and European private equity. As a group they are planning: to reduce their exposure to large buyout funds a little; to maintain their exposure to venture capital (which around half of LPs have); and to build their exposure to small and mid-market buyout funds, growth capital, and private debt.

The picture has changed relatively little in the last few years, except that the proportion of investors planning to decrease their exposure to large buyout and venture capital funds (which was around 30-40% of LPs) has now moderated.

LP investment strategies for North American and European PE over the next 2-3 years



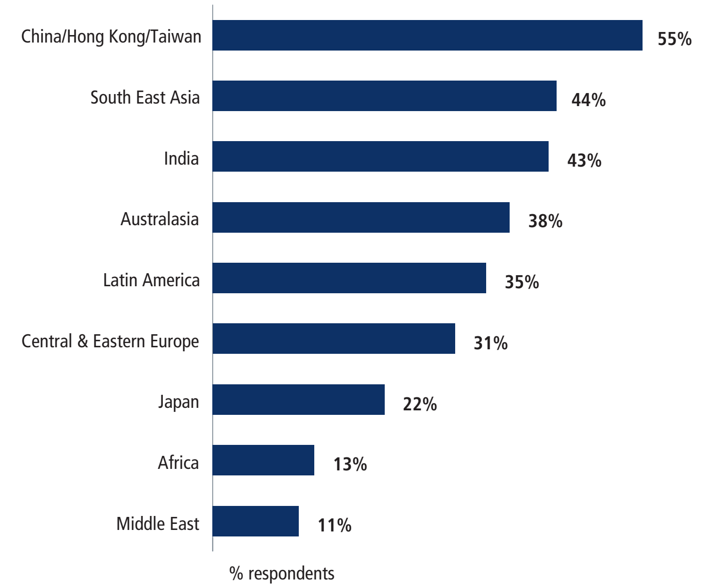
(Figure 10)

Over half of LPs have exposure to Chinese PE

55% of LPs are currently invested in Chinese private equity, with over 40% of LPs having exposure to South East Asia and India.

Just over a tenth of LPs are currently invested in Africa and the Middle East.

Proportion of LPs invested in less developed PE markets

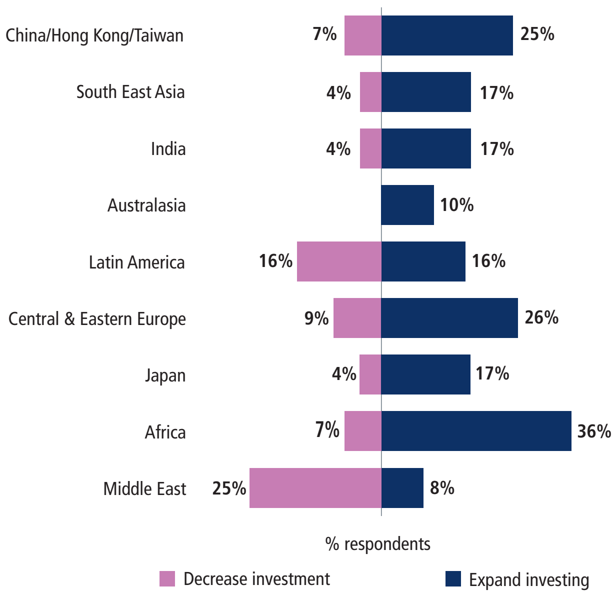


(Figure 11)

One third of LPs in African PE funds plan a higher exposure

Investors in private equity in less developed markets are especially interested in increasing their exposure to Africa, Central and Eastern Europe and China.

LPs invested in emerging PE markets – plans for commitments

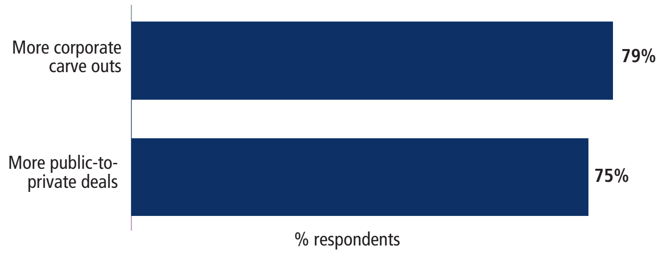


(Figure 12)

Corporate carve-outs and P-to-P deals to increase, LPs say

Four fifths of LPs believe that private equity's large volume of dry powder will result in more corporate carve-outs. And three quarters of LPs think it will boost the number of public-to-private deals.

Probable uses for the large volume of PE dry powder – LP views

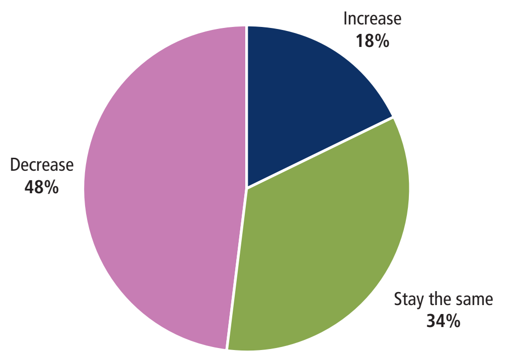


(Figure 13)

Half of LPs think private debt fund returns will go down

48% of LPs believe that returns from private debt funds will decrease over the next 3-5 years. This compares with 18% of investors who foresee a rise in returns.

LP views on private debt fund returns in 3-5 years' time



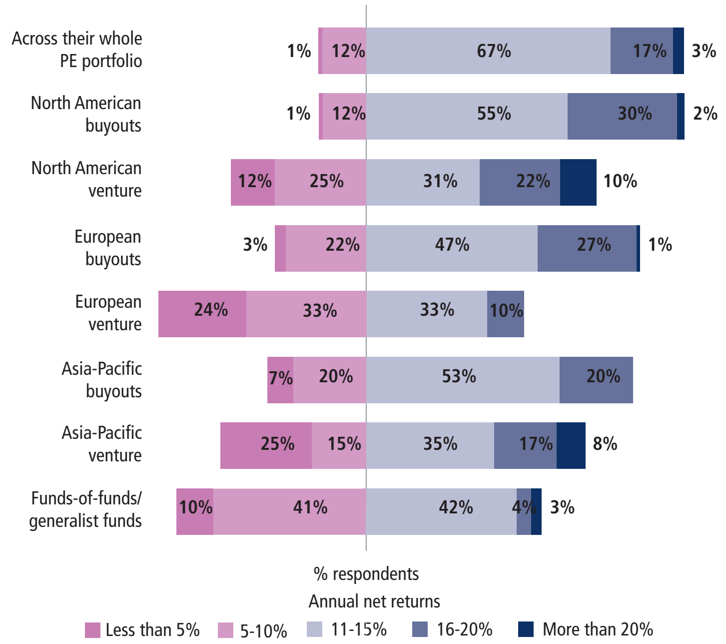
(Figure 14)

Large majority of LPs have achieved annual PE returns of over 11% net

87% of LPs have received annual returns (net of fees and carried interest) of more than 11% over the lifetime of their private equity portfolios – with 20% of LPs having achieved net returns of over 16%.

One third of LPs have achieved net annual returns of over 16% from North American buyouts and North American venture. Over a quarter of LPs have had similar returns from European buyouts.

Annual net returns across LPs' PE portfolios since their inception



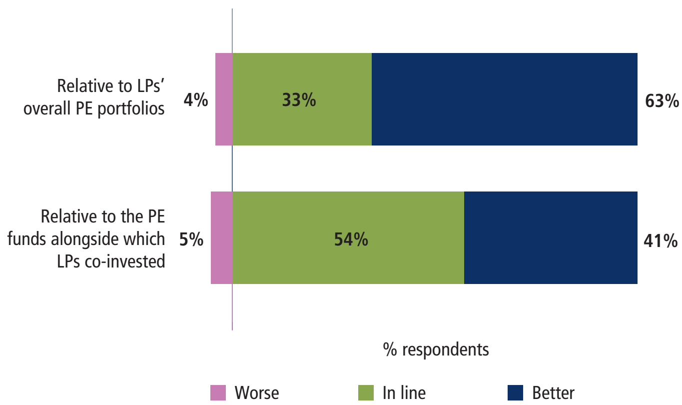
(Figure 15)

LPs' recent co-investments are delivering for them

Almost two thirds of LPs report that their co-investments have outperformed their overall PE portfolios in recent years.

41% of LPs say their co-investments have outperformed relative to the PE funds alongside which they co-invested.

Performance of LPs' co-investments in the last few years

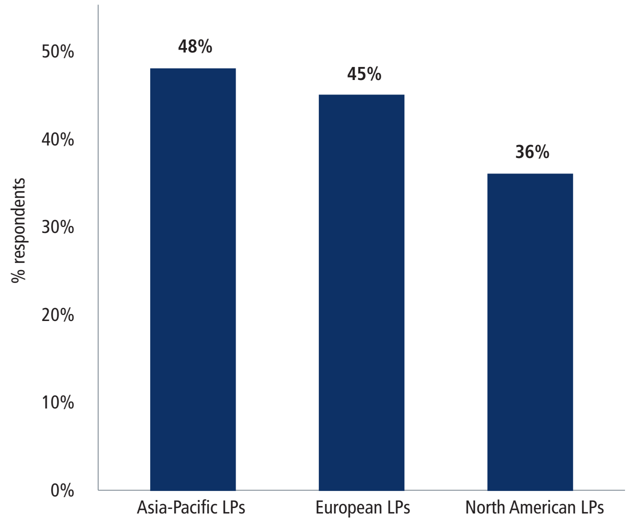


(Figure 16)

Half of European and Asia-Pacific LPs would swap lower fees for deal-by-deal carry

Almost half of LPs in Europe and Asia-Pacific would, in principle, be prepared to accept some form of deal-by-deal carry in return for a lower management fee. Only around a third of North American LPs would be happy to do so, however.

LPs who would consider deal-by-deal carry in return for a lower management fee

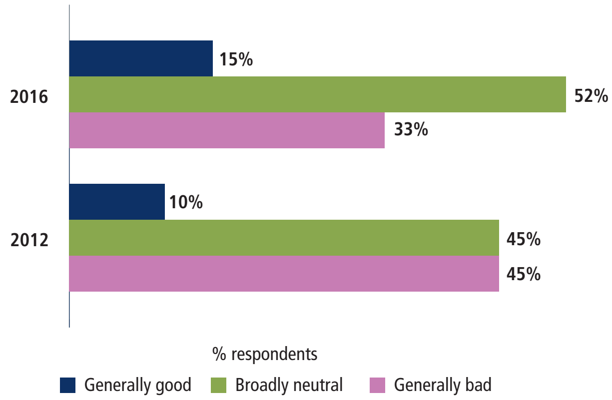


(Figure 17)

Private equity's reputation is gradually improving, LPs say

Two thirds of LPs believe that private equity's reputation is neutral or good now – compared with just over half (55%) of LPs in the Barometer of Summer 2012.

LP views on the PE industry's public reputation

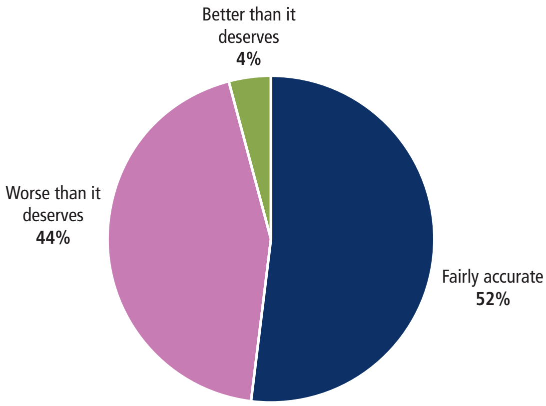


(Figure 18)

Two fifths of LPs think PE deserves a better reputation

About half of Limited Partners believe that private equity's reputation is, overall, an accurate reflection of the industry, but 44% of LPs think that the public reputation of private equity is still worse than the industry deserves.

LP views on PE's reputation



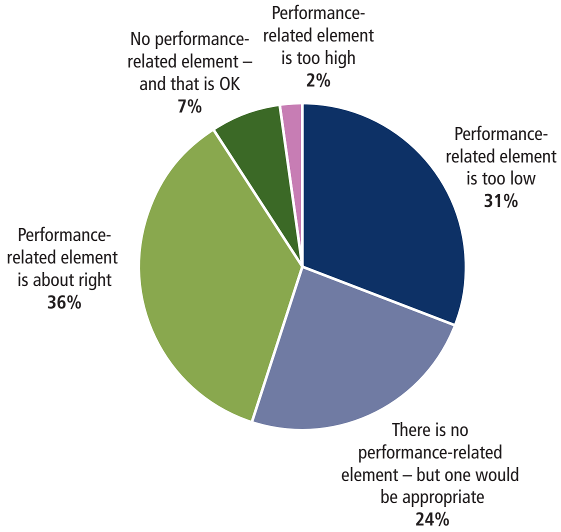
(Figure 19)

LPs query limited use of performance-related pay in their institutions

A performance-related element should be added to – or comprise a larger part of – their remuneration, according to over half (55%) of LPs.

69% of LPs currently have some element of performance-related pay in their remuneration.

LP views on their remuneration

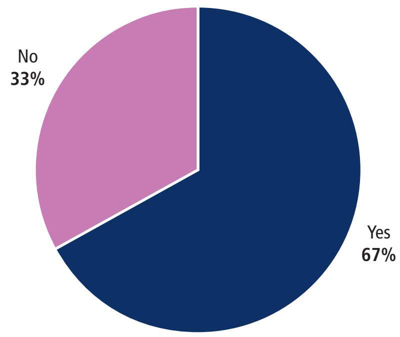


(Figure 20)

LPs' investment talent is now more likely to 'jump ship'

Institutional investors in private equity think investment talent is more mobile now than it was previously. Two thirds of Limited Partners believe that individuals are more likely to move to another LP institution than they were five years ago.

LP views on whether individuals are more likely to move from one LP organisation to another than 5 years ago



(Figure 21)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Summer 2016

The Barometer researched the plans and opinions of 110 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific (including the Middle East), form a representative sample of the LP population worldwide.

About Coller Capital

Coller Capital, the creator of the Barometer, is a leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies.

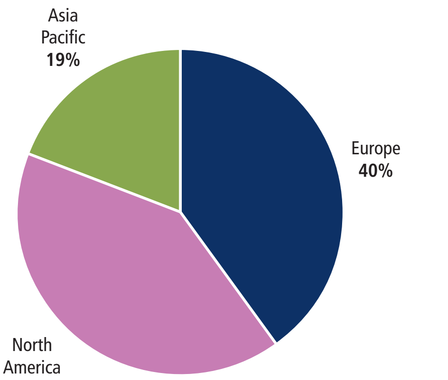
Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in March-April 2016 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the private equity arena.

Notes

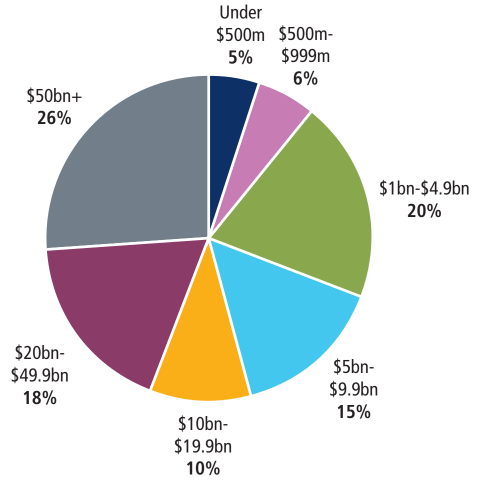
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth, buyout and mezzanine investments.

Respondents by region



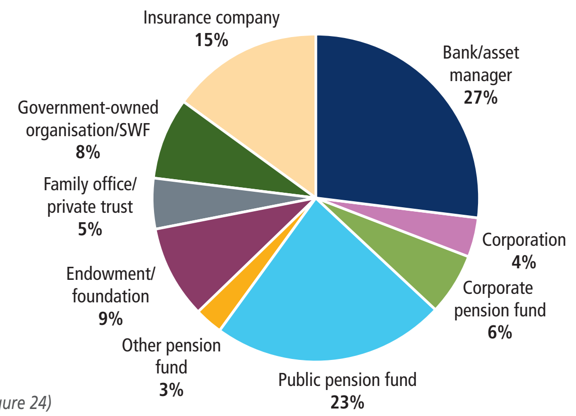
(Figure 22)

Respondents by total assets under management



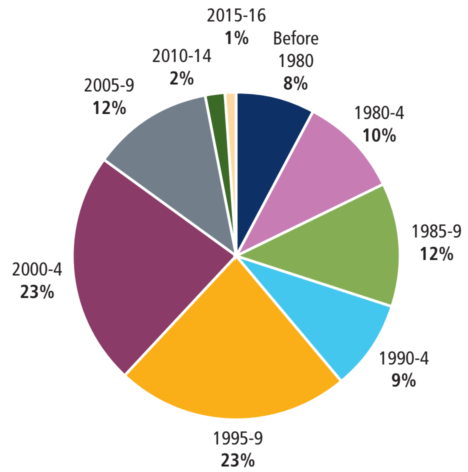
(Figure 23)

Respondents by type of organisation



(Figure 24)

Respondents by year in which they started to invest in private equity



(Figure 25)